

For Publication

October 1997

Treasury Proposal to Implement Mandatory Electronic Funds Transfer

The Debt Collection Improvement Act of 1996 enacted with bipartisan congressional support on April 26, 1996, requires the use of electronic funds transfer (EFT) for all Federal payments (except for tax refunds) starting January 2, 1999. This includes railroad retirement, social security, veterans' and other benefit payments.

The Department of the Treasury has issued a proposed rule to implement this legislation. The proposed rule addresses how current and new recipients of Federal payments will arrange to have their payments delivered electronically, how those without accounts at financial institutions will receive their payments, and who is eligible for a waiver. The public has 90 days from the publication date to comment on this proposal. The Department of the Treasury will then consider the comments and adopt a final rule.

The following questions and answers provide information on the proposed rule.

1. How is EFT advantageous to beneficiaries and the Government?

EFT is advantageous to beneficiaries because those enrolled do not have to be concerned about a benefit check being lost or stolen, do not become inconvenienced by mail delays, do not have to go to the bank or remail a check to deposit it, or worry about a check sitting in the mailbox when they're away from home. EFT payments begin to earn interest at once if the payments are deposited in an interest-bearing account, and benefit payments are available in a beneficiary's account the morning of the payment date.

The program is also to the advantage of the Government and the public because current costs for issuing a check payment are 43 cents as compared to 2 cents for issuing a direct deposit payment. For example, if all payments issued by the Railroad Retirement Board were now issued through EFT, the Board could save \$1.5 million each year.

EFT will save the Federal Government as a whole as much as \$100 million a year in processing costs alone. This savings is in addition to the \$65 million lost each year by individuals, businesses and the Government as a result of forgery, theft and counterfeiting of Government checks.

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2. How will the proposed rule affect persons still getting paper checks who also have bank accounts?

All Federal payment recipients *with* an account at a financial institution (bank, credit union, or savings and loan) must designate that account to receive their payments by EFT.

3. What will happen to beneficiaries without bank accounts?

Federal recipients *without* an account at a financial institution may choose to open an account at a financial institution on their own, or to be provided with an account in their name that allows them to access their funds at a reasonable cost and that has the same consumer protections as other accounts at the same financial institution.

These recipients would be able to continue receiving paper checks until these accounts, being designed by the Department of the Treasury, are available or until January 2, 2000, whichever is earlier. These newly created "Electronic Transfer Accounts" would permit ATM and point-of-sale access.

4. Are any waivers for individuals included in the proposed rule?

Under the proposed rule, hardship waivers for individuals would be granted in the following cases:

- Individuals who began receiving Federal payments *before* July 26, 1996, and who have an account with a financial institution, would not be required to receive their payments by EFT if they certify that payment by EFT will impose a hardship due to a physical disability or geographic barrier.
- Individuals who certify that they do *not* have an account with a financial institution and that payment by EFT would impose a hardship due to a physical disability or geographical barrier, or would impose a financial hardship, would not be required to receive their payments by EFT.

In addition, agencies will not be required to make international payments by EFT when the financial or communications infrastructure to support EFT does not exist in the country where the payment needs to be made. The Department of the Treasury's Financial Management Service is working to expand international EFT capabilities.

5. What entities will be allowed to act as authorized payment agents for Federal payment recipients?

The proposed rule defines an authorized payment agent as any person or entity that is appointed as a representative payee or fiduciary, under regulations of the Railroad Retirement Board, the Social Security Administration, the Department of Veterans Affairs or other agencies, to act on behalf of a beneficiary of a Federal benefit payment. Common examples include relatives of the recipient or a nursing home designated to manage the recipient's finances.

6. Can EFT payments be made to an account in the name of an individual other the recipient?

The proposed rule requires that all payments must be made to an account in the name of the Federal payment recipient with two exceptions. The first exception addresses cases in which a representative payee or fiduciary has been designated by an agency to manage the beneficiary's finances and receive payments on his or her behalf. These relationships could continue under the proposed rule.

The second exception involves situations in which beneficiaries choose to have their payments deposited in an account in the name of a broker or dealer registered under the Securities Act of 1934. Many brokers and dealers offer cash management accounts that combine investment and transaction features. In these cases, funds deposited into an account at a financial institution, which may be in the name of the securities broker or the name of the recipient, are "swept" out of the account on a regular basis and into an investment vehicle.

7. What will the Department of Treasury do to provide public education and notice of the EFT provisions?

The Department of the Treasury, working closely with consumer and community organizations, is initiating an extensive public education campaign to encourage all check recipients to make an informed choice about how they receive their payments. Public hearings will be held during October in Dallas, New York and Baltimore at which the public can provide feedback on the proposed rule. After the 90-day comment period on the proposed rule, which will end December 16, 1997, the Department of the Treasury will review all comments and publish a final rule. Once the final rule is in place, the public education campaign will continue.

8. How can the public comment on the proposed rule?

Comments on the proposed rule (Notice of Proposed Rulemaking 31 CFR Part 208) may be submitted by writing:

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9. How many railroad retirement annuitants are currently receiving their monthly benefit payments via EFT?

Over 750,000 railroad retirement annuitants receive benefit payments from the U.S. Railroad Retirement Board each month. While many annuitants still receive checks by mail, over 66 percent currently receive their payments through EFT. In addition, over 83 percent of the claimants for railroad unemployment and sickness insurance benefits receive these benefits through EFT.